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C O N F I D E N T I A L SECTION 01 OF 02 BEIRUT 001304

SIPDIS

DEPT FOR NEA/FO, NEA/ELA

P FOR DRUSSELL AND RRANGASWAMY

ALSO FOR IO ACTING A/S HOOK AND PDAS WARLICK

USUN FOR KHALILZAD/WOLFF/SCHEDLBAUER

NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

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TAGS: ECON ENRG EFIN PREL PGOV EG JO LE

SUBJECT: FACING MASSIVE POWER SHORTAGE, LEBANON AGREES TO BUY EGYPTIAN ELECTRICITY; POLITICAL INFIGHTING SLOWS REFORM

REF: BEIRUT 1199

Classified By: Ambassador Michele J. Sison for reasons 1.4 (b) and (d).

SUMMARY

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¶1. (C) Facing massive electricity shortages that have left residents of some regions without power twelve hours per day, Lebanon signed an agreement for the purchase of surplus electricity from Egypt, implementing one of the measures pledged in the new Lebanese cabinet's ministerial policy statement. Nonetheless, the GOL still needs to negotiate the price, to lower the "exorbitant" rates the Egyptian authorities are demanding, according to Lebanese Energy Minister Alain Tabourian.

¶2. (C) In recent months, residents have taken to the streets in several regions of Lebanon, burning tires and blocking roads to protest power outages. Lebanon clearly needs the electricity, but with losses at state-owned Electricite du Liban (EDL) topping 2 billion dollars per year, the GOL is desperate to secure it at preferential rates. Meanwhile, there appears to be little or no coordination between Tabourian, a March 8 minister, and PM Siniora, as personal squabbles get in the way of successful energy management. End summary.

¶3. (U) On August 27, Lebanese, Jordanian and Syrian Energy Ministers, Alain Tabourian, Khaldoun Katishat and Ahmad Al-Ali respectively, signed an agreement in Jordan with Egyptian Energy Minister Hassan Younis for the purchase of 450 megawatts of surplus Egyptian electricity, to be divided equally among the three countries. Tabourian also succeeded in getting the Jordanian and Syrian counterparts to agree to divert any surplus from their share of Egyptian electricity to Lebanon.

MASSIVE SHORTAGES CAUSE UNREST

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¶4. (U) Tabourian told the Embassy that demand for electricity this summer has reached 2200 megawatts, while production is only 1400 megawatts, leaving a huge shortage of 800 megawatts. The poor condition of Lebanese power plants and the need for maintenance has forced national power utility Electricite du Liban (EDL) to impose severe power rationing all over Lebanon, exceeding 12 hours out of 24 in some areas.

As a result, people have taken to the streets in several regions burning tires and blocking roads to protest against severe power rationing.

UNSUSTAINABLE DRAIN ON THE STATE COFFERS

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**15.** (U) By purchasing electricity from Egypt, Lebanon could be able to reduce power cuts to 4-6 hours per day, according to one of Tabourian's advisors. However, Lebanon also desperately wants to cut its energy bill, which Tabourian estimates absorbs 20-25 percent of GDP. "It is simply unsustainable," he told DCM (reftel). EDL's recurrent financial losses have been a major drain on state finances, with losses projected to reach 2 billion dollars in 2008, according to the government.

**16.** (C) The Egyptian authorities, however, have so far not offered concessions on pricing. Tabourian claims they are demanding an "exorbitant" rate for the electricity they are providing, especially given Lebanon's commitment to purchase from the Egyptians year-round. Minister Tabourian complained that Egyptian President Mubarak had promised PM Siniora during his August 16 visit to Alexandria that Egypt would support Lebanon with electricity and gas, but "where is the support?" Tabourian asked. Price negotiations are still in progress.

**17.** (SBU) Jordan also has offered to sell Lebanon 50-70 megawatts of electricity, and Tabourian said he will study the offer. Press reports, however, have indicated that

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Jordan plans to use the Al Hussein thermal power plant (23 km north of Amman), which it had closed because of inefficiencies and high production costs, to provide this electricity. Tabourian has made it clear he is not looking for more high-priced electricity, so this initiative may lead nowhere.

COMMENT: POLITICAL SQUABBLERS PREVENT ACTION

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**18.** (C) As electricity rationing causes more and more frustration among the Lebanese population, its provision becomes of increasing concern to the political actors in Lebanon. PM Siniora has made trips to Egypt and Iraq, at least partially in search of energy supplies, but bad blood (reftel) between Siniora and March 8 Minister Tabourian after the Egypt trip resulted in Tabourian's boycott of Siniora's Iraq visit. There now seems to be little coordination on energy initiatives between the Ministry of Energy and the PM's office. Likewise, during his September 2-3 trip to Qatar, President Sleiman discussed possible Qatari "support" on electricity and the future Qatari provision of natural gas to Lebanon, without Tabourian's participation. Though Tabourian's office said he planned to meet with the President in the coming days for a briefing, the Energy Ministry seems for now to be on the sidelines, slowing action to relieve the shortage.

**19.** (C) Ultimately, the capacity constraints and infrastructure dilapidation in the energy sector in Lebanon can only be resolved through privatization. Minister Tabourian indicated to DCM (reftel) that privatization would not be an immediate priority, given his short time at the Ministry, and because of the shortages, so far he has had to spend all his time trying to find stop-gap energy supplies just to keep the lights on. It seems doubtful that he can make progress in setting up the corporate structures at EDL necessary for privatization before the end of his term. End comment.

SISON